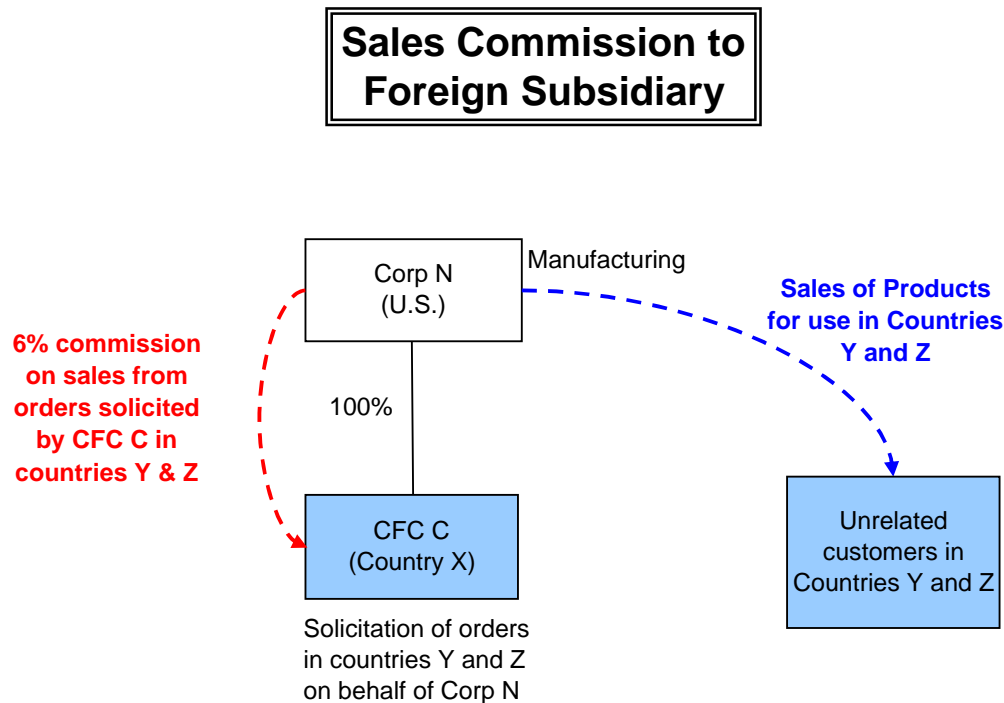


Reg. 1.954-3(a)(1)(iii), Example 3

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Controlled foreign corporation C, incorporated under the laws of foreign country X, is a wholly owned subsidiary of domestic corporation N. By contract, N Corporation agrees to pay C Corporation, a related person, a commission equal to 6 percent of the gross selling price of all personal property shipped by N Corporation as the result of orders solicited by C Corporation in foreign countries Y and Z. In fulfillment of such orders, N Corporation ships products manufactured by it in the United States. Corporation C does not assume title to the property sold. **Gross commissions** received by C Corporation from N Corporation **in connection with the sale of such property** for use in countries Y and Z **constitute foreign base company sales income**.

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